Investment Report – 31st March 2016

Energy drink urgently required

Equities markets did not succeed in making a custom-made start to the New Year. A cocktail of worries caused headaches and dragged prices down. The cocktail's ingredients ranged from fears of a collapse in Chinas economic growth via Renminbi devaluation, to fears of rapid interest rate hikes in the USA, and a sobering realisation that neither attractive commodity prices, nor ultra-low interest rates had succeeded in giving wings to the global economy.

Change of sentiment

What investors until recently considered Manna from heaven, is now under suspicion of being poisonous. Low crude prices are no longer considered as easing the burden on energy bills, but rather as a negative for the oil industry, as well as for the sovereign wealth funds of oil exporting nations. Instead of viewing low interest rates as an advantage for investment and consumption, investors now associate the zero and negative interest rate policy as a threat to the capitalistic savings and pension system. In the meantime, "Brexit" (the proposed exit of the UK from the EU) is also casting its long shadow. The refugee and migrant problem, together with the terrorist threat, add their share to the prevailing uncertainty.

Average **growth and inflation forecasts** from "The Economist's" March poll of economists:

	Real GDP Growth		Inflation	
	2016	2017	2016	2017
China	6.4%	6.2%	1.6%	1.7%
Germany	1.5%	1.6%	0.6%	1.7%
Euroland	1.5%	1.6%	0.4%	1.4%
United Kingdom	2.0%	2.1%	0.7%	1.8%
Japan	0.8%	0.6%	0.4%	1.8%
Switzerland	1.1%	1.5%	-0.6%	0.5%
USA	2.0%	2.2%	1.2%	2.2%

Indeed, growth expectations for 2016 have been lowered. In the USA, for example, adjusted down from 2.4% in January to currently 2%, and in Germany, from 1.7 to currently 1.5%. A weaker year is also expected for Switzerland, Austria, France and Italy, with growth rates ranging from 1.1 to 1.3%. Brazil and Russia are expected to slide further into recession in 2016. China and India, however, contrary to all prophecies of doom, are expected to grow by a very respectable 6.4 and 7.4%, respectively.

Change in **Equity Markets since the beginning of the year:**

		Dec. 2015	March 2016	Change[1]
Asia ex Japan	DJ STOXX A/P	429.1	434.4	**1.2%**
Germany	DAX	10,743.0	9,965.6	**-7.2%**
Europe	DJ STOXX 600	365.8	337.6	**-7.7%**
Japan	TOPIX	1,547.3	1,347.2	**-12.9%**
Switzerland	SPI	9,094.0	8,316.6	**-8.6%**
USA	S&P 500	2,043.9	2,059.7	**0.8%**
World	MSCI World Index	399.3	398.3	**-0.3%**

The European Central Bank (ECB), as well as the Bank of Japan (BoJ), reacted with a further dose from the medicine chest (or poison cabinet?). The ECB has expanded its bond purchasing programme to include corporate debt, and has increased the amount of monthly purchases. The BoJ is now keeping its Swiss colleagues company with negative interest rates. Furthermore, the US Federal Reserve (FED) has to date forgone a second interest rate hike, and has instead reduced the speed of the planned increases. The FED now only expects two interest rates hikes for the current year with a total increase of 50 basis points. The market is even more sceptical, expecting just 10 basis points. Interest rates in Switzerland remain near to, or below, zero.

It is no wonder then that inflation rate expectations have been lowered too, presenting central bankers with a dilemma. Fear of deflation dominates all. This neither helps the economy, nor does it allow highly-indebted governments, corporations, and individuals, to reduce their debt with the magic wand of inflation. The arsenals of the central banks appear to be depleted. Already the call for new measures, such as "helicopter money", can be heard. This means every citizen would receive money from the state for consumption (and thus stimulate the economy), or figuratively speaking, have money thrown from helicopters onto the public at large. Would this help, is the question that immediately arises. It has to be feared that this money would not be used for consumption, rather it would be saved instead since every sensible person would realize

[1] Development of index in local currency. Exceptions Asia ex Japan and World in USD

that, ultimately, he or she will be asked to pay up for this largesse by means of higher taxes.

Rays of hope

Of course, not everything is just doom and gloom. For example, central bank measures have allowed prices of existing bonds to rise, as, amongst others, may be seen in the table, "Other funds employed by us" below. In the USA, the recovery of oil prices provided relief for the buffeted high-yield sector. However, the biggest gains resulting from this change of perspective were made by gold. In Swiss Francs and Euro terms, it gained about 11%, and in US Dollars, 16%. British owners derived the most pleasure from this, as, measured in Pounds Sterling, the yellow metal gained 19%. The doubling of our position (see paragraph "Asset Allocation") thus fell on fertile ground. Arguments in favour of the metal are, low interest rates (no opportunity costs for owning gold, bonds with negative yields are a consideration for ever fewer investors), the loss of faith in paper currency, as well as the uncertainty in view of the political environment.

The **equity funds employed by us** achieved following returns[2] since the beginning of the year, with some beating their benchmarks:

Aberdeen Asia Pacific (USD)	**0.3%**
JB Japan Stock Fund (CHF hedged)	**-12.7%**
JB Japan Stock Fund (EUR hedged)	**-12.8%**
Performa Asian Equities (USD)	**0.8%**
Black Rock Swiss Small & Midcap Opp. (CHF)	**-1.8%**
Raiffeisen Futura Swiss Stocks (CHF)	**-4.5%**
Performa European Equities (EUR)	**-6.4%**
Performa US Equities (USD)	**-4.9%**

Equities have managed to recover from the January losses somewhat. Fundamental valuations are not cheap. To be vindicated in the long term, an improvement in profits is necessary. Whether it will actually take place, remains uncertain. From a technical point of view, it remains to be seen whether the recovery, which in some instances went as far as the 200 day moving averages, has the power to break through the threshold of resistance upwards. A rekindling of volatility has to be reckoned with.

[2] Performance in fund currency. Source: Bloomberg or respective fund company

Asset Allocation:

At its meetings, the Investment Committee decided on the following changes to the asset allocation for medium-risk balanced Swiss-Franc portfolios, not subject to client's restrictions (mandates in different reference currencies at times display different nominal weightings and weighting changes):

Money Market: The cash quota at the end of the quarter was slightly below that of the end of 2015, but above the long-term strategic allocation as defined by us. Thanks to maturing bonds, it will marginally increase in the months to come.

Bonds: No active changes have been made to this position. Again, repayments from maturing bonds have been reinvested only very selectively. Markets in the corporate bonds preferred by us are dried up; government bonds do not make sense given zero or negative yields.

During the current year, **yields on 10-year government bonds** declined:

	Dec. 2015	March 2016	Change
Europe	0.63%	0.15%	-76%
United Kingdom	1.96%	1.42%	-28%
Japan	0.27%	-0.03%	-111%
Switzerland	-0.06%	-0.34%	-467%
USA	2.27%	1.77%	-22%

Equities Switzerland: We reduced this quota by five percentage points with the sale of the Black Rock Swiss Small & Midcap Opportunities Fund. In directly-invested portfolios, this reduction was achieved when stop loss limits were reached. On the subject of our directly-invested stock selection; our Swiss Stock Portfolio (SSP), in spite of the difficult environment, shows a positive performance of 2.2% (including dividends). In contrast, the benchmark SPI achieved -8.6%. Again, it was helpful that our weighting of individual stocks was much more balanced than the index, where a few large cap companies, such as Credit Suisse, UBS, Novartis and Roche, pushed the index down massively. Since 2010, the annual performance of the SSP amounts to 10.6% p.a., and with that, doing significantly better than its benchmark at 6.5% . The SSP figures include transaction cost and taxes at source, whereas the benchmark does not bear any such costs. The Raiffeisen Futura Swiss Stocks, as well as the Black Rock Swiss

Small & Midcap Opportunities Fund, employed as alternatives to the directly-invested SSP, equally did well and beat the market.

Other funds employed by us developed as follows[3]:

Acatis IfK Value Renten (EUR)	1.4%
Acatis IfK Value Renten (CHF)	1.1%
Lyxor ETF Euro Corp. Bond Fund (EUR)	2.2%
New Capital Wealthy Nations Bond Fund (EUR)	3.9%
New Capital Wealthy Nations Bond Fund (CHF)	3.7%
New Capital Wealthy Nations Bond Fund (USD)	4.3%
Pictet CH-CHF Bond Fund	2.4%
Swiss Rock Absolute Ret. Bond Fund (EUR hedged)	0.5%
Swiss Rock Absolute Ret. Bond Fund (CHF hedged)	0.3%
UBAM Corporate USD-Bonds (EUR hedged)	2.4%
UBAM Corporate USD-Bonds (CHF hedged)	2.2%
ZKB ETF Gold (USD)	16.1%

Equities Europe: No changes have been made to the European Equity allocation. The directly-invested European Stock Portfolio (ESP) finished the quarter with a performance of -6.1% and as such, outperformed its benchmark by one percentage point. Since 2004, the average annual performance of this selection amounts to +7.9%, compared with +6.2% of the benchmark. The figures for the ESP are net of transaction costs and taxes at source, the benchmark, however, operates free of charges. You will find the performance and benchmark comparisons between ESP and SSP on our website www.salmann.com (under the tab, "Produkte").

Equities USA: No general change has been made to the allocation. The sole exception was Euro Mandates, where we reduced the US weighting by two percentage points. We are now neutral weight in the USA.

Equities Asia (excluding Japan): We have made no changes to this positon. With an about 4.4% quota, this is a roughly neutral allocation.

Equities Japan: "Easy come, easy go", one is inclined to say looking at Japan. During the fourth quarter of 2015, the Kabutocho was the high flyer with its double-digit positive performance. This time around, the Japanese have only managed the bottom rung.

[3] Performance incl. re-invested dividends where applicable

No changes have been made to the allocation. We are slightly overweight in Japanese equities. The Yen is hedged into clients' reference currencies.

Measured on the price/earnings ratio[4] using the latest 12 months profit figures, some of the equity markets have become dearer since beginning of the year (red), while others have become more attractive (green):

	Dec. 2015	March 2016	Change
DAX Index/DE	22.8	20.4	-11%
DJ STOXX 600 Index/EU	23.4	24.4	4%
MSCI World Index	20.7	18.1	-13%
S & P 500 Index/USA	18.2	18.7	3%
SPI Index/CH	25.4	37.7	48%
TOPIX Index/JPN	16.5	15.0	-9%

Alternative Investments: The strategic asset allocation includes a 5% quota for alternative investments, which we have not utilized for a long time. The benchmark is the HFRX-Global-Hedge-Fund-Index. With the purchase of the BCV Liquid Alternative Beta Fund during the past quarter, we have now taken up a position. This product exploits different sources of return rather than classic equity, bond, money market and gold positions, and displays a low correlation to these categories and in so doing, reduces volatility in the mandates. A peculiarity of this Banque Cantonal Vaudoise branded Fund, is that it does not invest in individual hedge funds, but dynamically replicates the exposure of the HFRX-Global Hedge Fund Index components with liquid instruments. As such, there is no single-manager nor is there an illiquidity risk. The currency hedged fund can be traded daily. With the establishment of a 5% position, we are now neutral weight in this category.

Precious Metals: We doubled up on the existing position early in the quarter to currently about 6%. With double-digit returns, gold was one of the best investment opportunities during the first three-month period. To distinguish the gold position from alternative investments, where it had been previously reported, we now report it under a separate category "Precious Metals". As our strategic asset allocation has no benchmark for precious metals, this asset class is now shown as "overweight".

[4] Source: Bloomberg

Summary of our current **Asset Allocation**[5]**:**

Investment Category	
Money Market	overweight
Bonds	underweight/short duration
Equities Switzerland	underweight
Equities Europe	underweight
Equities USA	neutral
Equities Asia	neutral
Equities Japan	slightly overweight
Precious Metals	overweight
Alternative Investments	neutral

Price/Book and **Dividend Yield** of major equity markets:

	Price / Book	Div. Yield
DAX Index/DE	1.6	3.0%
DJ STOXX 600 Index/EU	1.7	3.7%
MSCI World Index	2.0	2.7%
S & P 500 Index/USA	2.8	2.2%
SPI Index/CH	2.0	3.5%
TOPIX Index/JPN	1.1	2.0%

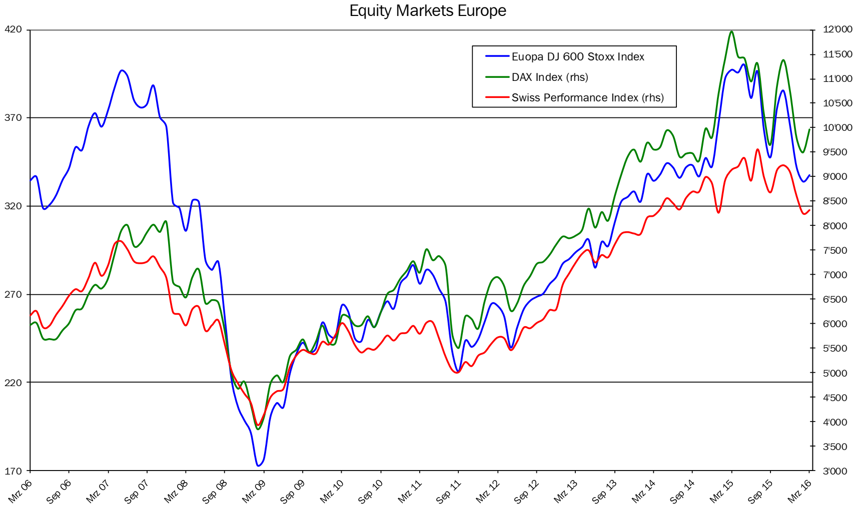
And finally this

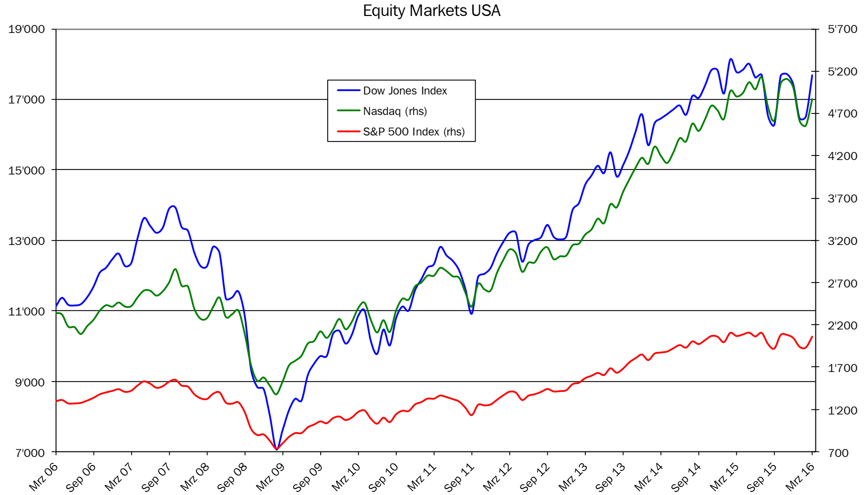
“As January goes, so goes the year”, is the stock market saying. Should this have a predictive character for 2016, the outlook would be anything but rosy. The S&P 500 Index lost 5% in the first month – a considerably bad omen. But how reliable has this rule been in the past anyway? The American asset manager Federated wanted to know and analysed the past. The upshot: A bad January does not always stand for a bad year. Particularly in the more recent past, this prediction has often been proved wrong. In the period between 2002 and 2015, the S&P 500 experienced a negative January in seven of those years, but in only two instances did the calendar year as a whole end in the red. Taken over the longer term, however, it is less prudent to ignore this saying. Since 1950, January predicted the year’s close correctly in 76% of the cases. With a 90% hit rate, it was particularly reliable on the positive side. On the minus side, 26 negative Januaries where followed by 14 red calendar years; a success rate of 54%. “Roughly the probability of flipping a coin”, commented Federated. As an optimist, one is allowed to interpret that as a ray of hope.

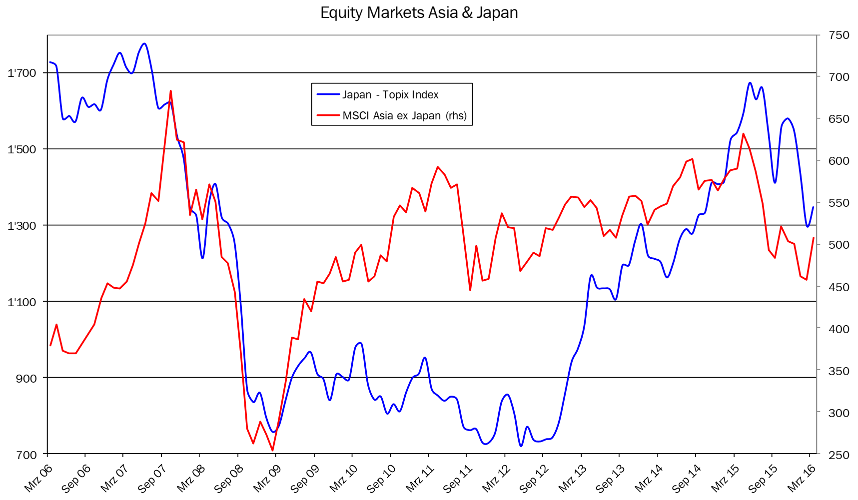
[5] For a Swiss Franc referenced portfolio

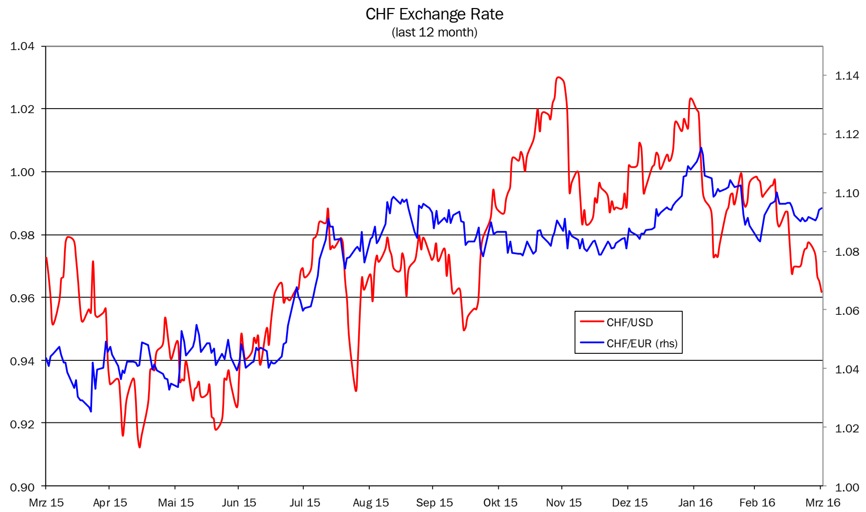
We thank you for the trust placed in us as well as your kind cooperation and wish you a blossoming spring time.

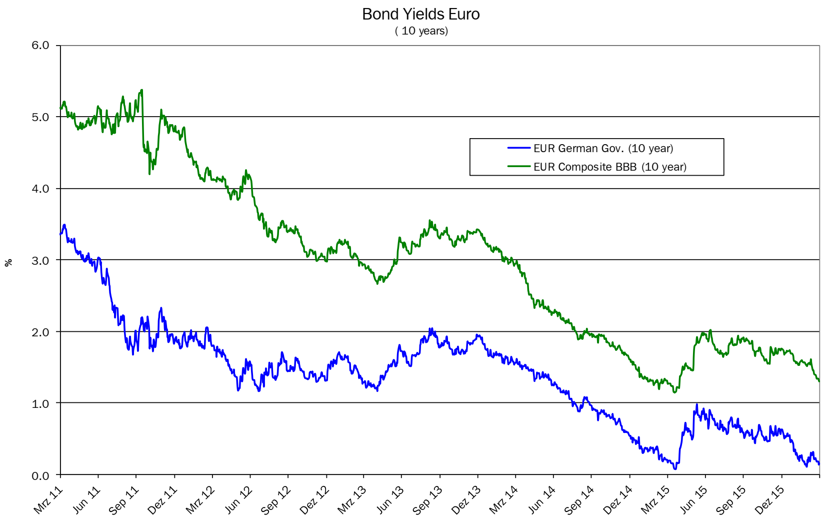
Alfred Ernst
Vaduz/Zurich, 31st March 2016

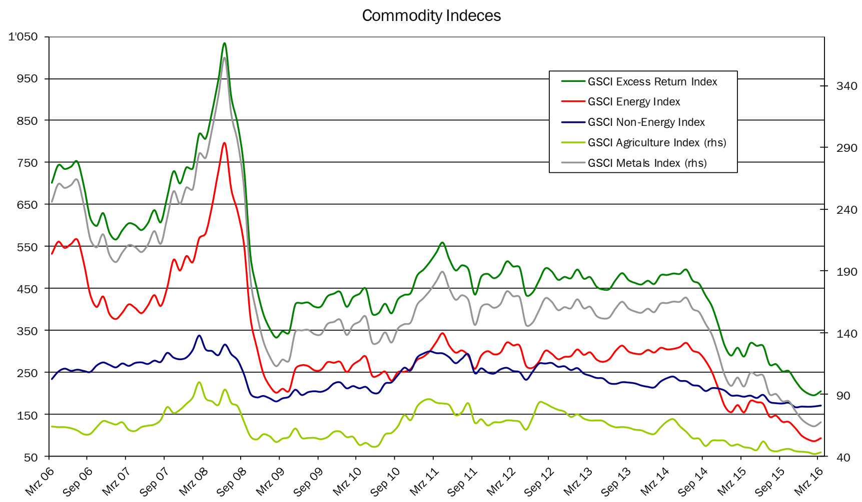

Equity Markets Europe
Euopa DJ 600 Stoxx Index
DAX Index (rhs)
Swiss Performance Index (rhs)
420
370
320
270
220
170
12'000
11'500
11'000
10'500
10'000
9'500
9'000
8'500
8'000
7'500
7'000
6'500
6'000
5'500
5'000
4'500
4'000
3'500
3'000
Mrz 06 Sep 06 Mrz 07 Sep 07 Mrz 08 Sep 08 Mrz 09 Sep 09 Mrz 10 Sep 10 Mrz 11 Sep 11 Mrz 12 Sep 12 Mrz 13 Sep 13 Mrz 14 Sep 14 Mrz 15 Sep 15 Mrz 16

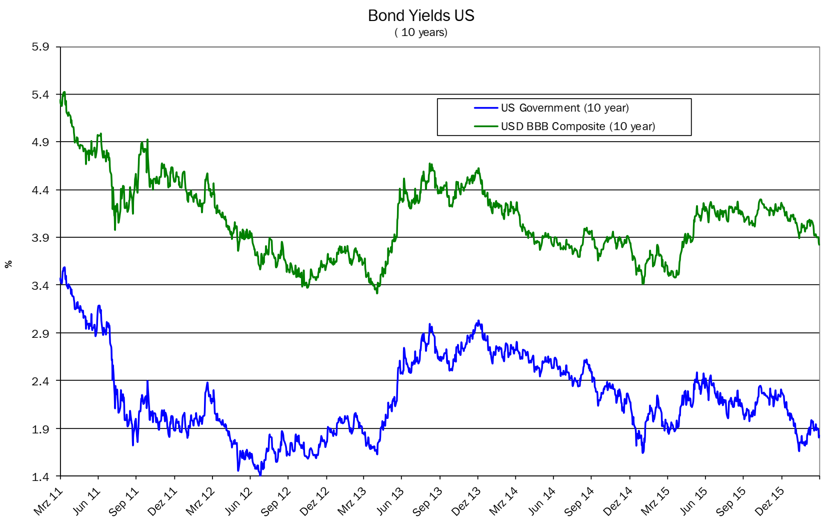

Equity Markets USA
Dow Jones Index
Nasdaq (rhs)
S&P 500 Index (rhs)
19'000
17'000
15'000
13'000
11'000
9'000
7'000
5'700
5'200
4'700
4'200
3'700
3'200
2'700
2'200
1'700
1'200
700
Mrz 06 Sep 06 Mrz 07 Sep 07 Mrz 08 Sep 08 Mrz 09 Sep 09 Mrz 10 Sep 10 Mrz 11 Sep 11 Mrz 12 Sep 12 Mrz 13 Sep 13 Mrz 14 Sep 14 Mrz 15 Sep 15 Mrz 16

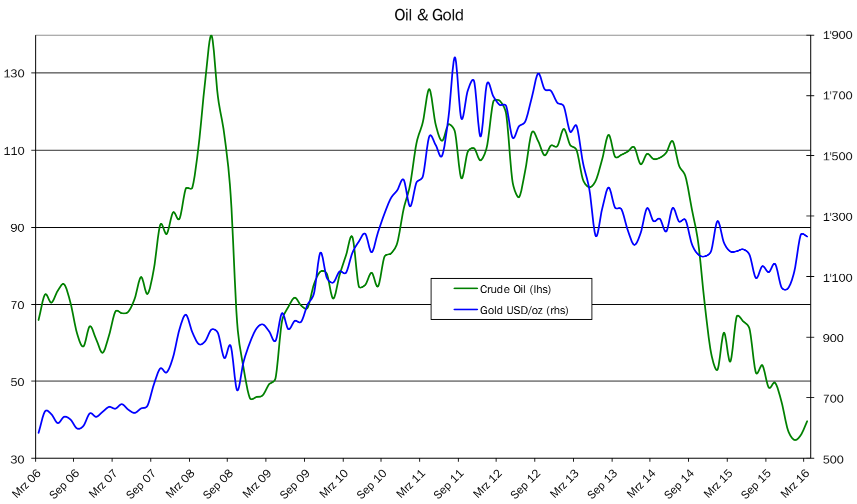

Equity Markets Asia & Japan
Japan - Topix Index
MSCI Asia ex Japan (rhs)
1'700
1'500
1'300
1'100
900
700
750
700
650
600
550
500
450
400
350
300
250
Mrz 06 Sep 06 Mrz 07 Sep 07 Mrz 08 Sep 08 Mrz 09 Sep 09 Mrz 10 Sep 10 Mrz 11 Sep 11 Mrz 12 Sep 12 Mrz 13 Sep 13 Mrz 14 Sep 14 Mrz 15 Sep 15 Mrz 16


CHF Exchange Rate
(last 12 month)
CHF/USD
CHF/EUR (rhs)
1.04
1.02
1.00
0.98
0.96
0.94
0.92
0.90
1.14
1.12
1.10
1.08
1.06
1.04
1.02
1.00
Mrz 15 Apr 15 Mai 15 Jun 15 Jul 15 Aug 15 Sep 15 Okt 15 Nov 15 Dez 15 Jan 16 Feb 16 Mrz 16


Bond Yields Euro
(10 years)
EUR German Gov. (10 year)
EUR Composite BBB (10 year)
%


Commodity Indeces
GSCI Excess Return Index
GSCI Energy Index
GSCI Non-Energy Index
GSCI Agriculture Index (rhs)
GSCI Metals Index (rhs)


Bond Yields US
(10 years)
US Government (10 year)
USD BBB Composite (10 year)
%


Oil & Gold
Crude Oil (lhs)
Gold USD/oz (rhs)